COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2927-12
Bill No.: SCS for HCS for HB 1143
Subject: Economic Development; Taxation and Revenue.
Type: Original
Date: May 9, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(Unknown to $15,000,000)	($1,264,204) to (Unknown)	($1,264,204) to (Unknown)
Total Estimated Net Effect on All State Funds	**(Unknown to $15,000,000)**	**($1,264,204) to (Unknown)**	**($1,264,204) to (Unknown)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	**($11,900)**	**($23,800)**	**($23,800)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 10 pages.

FISCAL ANALYSIS

ASSUMPTION

SPRINGFIELD COMMUNITY IMPROVEMENT DISTRICT; (Section 67.1442)

In response to similar legislation from this year (SB 669) officials of the **Department of Economic Development** assumed no fiscal impact.

In response to similar legislation from last session (635-01, SB-125) officials of the **City of Springfield** stated that this proposal is discretionary and would have no fiscal impact to the Community Improvement Districts.

Oversight assumes this proposal is permissive and would have no fiscal impact. To remove property or relocate property from a Community Improvement District would require a hearing by the City, and approval of the District Board. Before any action to remove or relocate property the district would have to be able to meet any financial obligation excluding the revenues generated by the property being removed.

RIVERFRONT DEVELOPMENT DISTRICT ACT; (Sections 68.200 - 68.240)

Oversight has ranged the fiscal impact from this part of the proposal from $0 to ($15,000,000) loss in revenue since in Section 68.220.4 states that "at no time shall the aggregate annual amount of state net new revenues appropriated pursuant to sections 68.200 to 68.240 exceed fifteen million dollars."

Officials from the Office of Administration, Department of Revenue and the Department of Economic Development did not have enough time to study this substitute and respond. **Oversight** assumes costs would be incurred by DOR (programming) and DED (administration) as a result of this section and have estimated the amounts as "Unknown".

ANNEXATION IN JACKSON OR CASS COUNTIES (Sections 72.080 & 72.130);

Officials from Jackson County, Cass County, City of Kansas City and the City of Belton have not responded to Oversight's request for fiscal impact regarding this provision.

ASSUMPTION (continued)

Oversight assumes this part of the proposal would not fiscally impact the state or the local governments.

PUBLIC WORKS AND CONDEMNATION (Sections 88.010 - 88.1027);

In response to similar legislation from this year (SB 711), officials of the **Office of State Courts Administrator** stated that they would anticipate one or more cases to test the parameters of the law, and would not expect a significant increase in the workload of the Judiciary. Officials assumed no fiscal impact.

In response to similar legislation from this year (SB 711), officials of the **Village of Bel-Ridge** assume that this proposal would have no fiscal impact to their finances.

In response to similar legislation from this year (SB 711), officials of the **Village of Bel-Nor** assume that this proposal would have no fiscal impact to their finances.

In response to similar legislation from this year (SB 711), officials of the **Jefferson County Commission** assume fiscal impact is unknown.

Oversight assumes this proposal is enabling legislation that would give authority to towns and villages to use the power of eminent domain when establishing or improving roads, and other related infrastructure projects. Oversight assumes no state fiscal impact. Certain cities would have no fiscal impact, unless their governing body would elect to use the authority granted by this proposal.

MAKE-UP OF COMMISSION (Sections 99.050 - 99.134);

In response to similar legislation from this year (SB 1039), officials of the **Department of Economic Development- Mo. Housing Commission** assumed no state fiscal impact.

In response to similar legislation from this year (SB 1039), officials of the **Kansas City Manager's Office** assumed no fiscal impact to City Funds, however, officials stated that the cost of paying the Housing Commissioners $200 per month plus expenses that could not exceed $1,000 annually would come from funds of the Kansas City Housing Authority.

<u>ASSUMPTION</u> (continued)

Oversight assumes that the cost to the Kansas City Housing Authority would be 7 Commissioners x $2,400 ($200 x 12 months = $2,400) or $16,800 annually plus a maximum of $1,000 annually per commissioner for expenses would equal $7,000. The total annual cost if the maximum expense allowed were used would be $16,800 + $7,000 = $23, 800. Fiscal impact for the Kansas City Housing Authority wouldbegin on January1, 2003 or for 6 months of FY 2003

ENTERPRISE ZONE IN SPRINGFIELD, WRIGHT COUNTY AND PULSAKI COUNTY (Sections 135.207 & 135.259);

In response to other legislation this year that established enterprise zones, officials from the **Department of Economic Development** stated that the average cost for each rural enterprise zone is $138,000.00 per year and the cost of a metropolitan EZ is $888,204.00. To calculate the cost of an enterprise zone, DED looks at the costs of EZ tax credits, refunds, and income modifications (modification times tax rate to convert to dollar benefit) for a year. These figures are an average so some zones will cost more and some will cost less. It is not possible to predict anything more than the averages used as the cost until the zone has been created and mapped. DED assumes no additional personnel but could request some should work created dictate this course of action.

Oversight assumes the enterprise zone in Springfield would result in a loss of revenue to the state of $888,204 per year starting in FY 2004 and the enterprise zones in Wright and Pulaski Counties would result in a loss of revenue to the state of $138,000 each starting in FY 2004.

EXPANSION OF ENTERPRISE ZONES (Section 135.230);

Officials from the **Department of Economic Development** state there are 13 enterprise zones that would be included in this description, with a possibility of 84 enterprise zone expansions.

Oversight assumes this part of the proposal could result in an unknown loss of revenue, greater than $100,000 per year if each county within an enterprise zone could expand 3 times, as opposed to current law where the entire enterprise zone, no matter how many counties it is in, could only expand three times.

COMMUNITY DEVELOPMENT CORPORATIONS AND SMALL BUSINESS TAX CREDITS (Sections 135.400 - 135.423);

In response to a similar proposal (SB 1117) from this year, officials from the **Department of Economic Development (DED)** state the proposal makes the following changes with the corresponding <u>fiscal impacts</u> to state revenues;

135.400 – (3) Redefines ""Community Development Corporation"" and (10) Redefines

""Principal Owners"" . No Impact.

135.408 – Ownership of "small business" changes from a 50% level to a maximum of 65% for investors. No Impact.

135.411 and 423 – The length of time a qualified investment must remain in a small business is changed from 5 years to 3 years. The DED is given authority to revoke and pro-rate collection of credits. Sale of a business does not automatically trigger a revocation if the business continues. No Impact.

TAX CREDIT FOR REHABILITATION AND CONSTRUCTION OF RESIDENCES IN DISTRESSED COMMUNITIES (Sections 135.478 - 135.530);

In response to a previous version of this proposal;

...officials from the **Department of Economic Development (DED)** stated this proposal appears to have no fiscal impact on DED. It only redistributes credits that already exist.

...officials from the **Department of Revenue (DOR)** do not anticipate a significant increase in the number of new credits filed as a result of this proposal. Therefore, DOR did not request additional FTE at this time. However, if DOR is incorrect in this assumption, they assume they will need one Temporary Tax Season Employee for every 75,000 additional credits, one Tax Processing Tech I for every 30,000 additional errors generated and one Tax Processing Tech I for every 3,000 additional pieces of correspondence received regarding this credit. DOR will monitor the credit and any FTE needed will be requested during the normal budget process.

...officials from the **Department of Agriculture** state this proposal would not fiscally impact their agency.

ASSUMPTION (continued)

Oversight assumes the changes made to the Neighborhood Preservation tax credit program will not change the annual cap of $16 million, or $8 million each for the qualifying areas and the eligible areas. According to DED, in calendar year 2001, the entire pot of $8 million in credits for eligible areas was claimed while only $2.6 million of the $8 million in credits for qualifying areas was claimed. The fiscal note prepared for the enabling legislation for this program reflected a loss of state funds of $0 to ($16 million) annually starting in FY 2001. Therefore, while this proposal may result in an increased utilization of the Neighborhood Preservation tax credit program, Oversight assumes the cap on the program has not changed from the $16 million reflected in the fiscal note for SB 20 in 1999, and therefore, assume no additional fiscal impact from the changes in this program.

Oversight assumes the proposal also changes the definition of "distressed communities" in Section 135.530. This definition is used by various programs under DED, including CAPCO, Tax Credit for Contributions to Innovation Centers, Credit for New or Expanded Business Facilities as well as others. While some of these programs are capped, the New or Expanding Business Facility tax credit is not capped. A business in a newly created distressed community would be allowed a larger tax credit for expanding an existing business or creating a new business facility than they would if they were not in the newly defined distressed community. Companies not in a distressed communities are allowed the credit, but at a lower per-employee and per-capital rate.

With DED's assumption from a previous version of this bill that changing the definition of distressed communities would have no impact (or certainly negligible) on the amount of tax credits utilized, **Oversight** assumes this part of the proposal would have a minimal fiscal impact on the General Revenue Fund.

Oversight assumes this part of the proposal may result in the increased utilization of some of the various tax credit programs that use the definition of distressed communities, however, many of the programs are capped, therefore, Oversight has already reflected the potential losses to the General Revenue fund in previous fiscal notes.

VARIOUS TAX CREDIT PROGRAMS (Sections 135.535, 348.300 - 348.302);

In response to similar legislation from this year, officials from the **Department of Economic Development** stated:

135.535 - Distressed Communities Tax Credit Program. This proposal makes technical changes. <u>This proposal is considered cost neutral</u>. It lowers the percent of employees in a distressed community to

<u>ASSUMPTION</u> (continued)

60% from 75%, allows companies to have 150 (200 if in distressed area) employees vs. 100, and allows credits for capital lease or purchase of computer equipment. Unused credits added to Seed Capital Program. This could result in additional but unpredictable costs because current credits of $10 million are not all claimed and may require additional personnel/expenses at a later time.

348.300 – 302 Seed Capital Tax Credit Program This change raises the credit percent from 50% to 75% for contributions. Also allows for credits if investment was made in previous 3 years. The program currently has a cumulative cap of $9 million which has been fully allocated.

Interest payments for use of carryback of tax credits (Section 143.811);

There are no changes to this section of RSMo, therefore, **Oversight** assumes no fiscal impact from this part of the proposal.

Oversight has not reflected the possible positive benefits from the various economic development proposals and changes contained in this bill.

This proposal may impact Total State Revenues.

FISCAL IMPACT - State Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE FUND			
Loss - of state revenue from the Riverfront District Development Act	$0 to ($15,000,000)	$0 to ($15,000,000)	$0 to ($15,000,000)
Costs - Department of Revenue Programming charges for Riverfront District Development Act	(Unknown)	$0	$0
Costs - Department of Economic Development - administration of Riverfront District Development Act	(Unknown)	(Unknown)	(Unknown)
Loss - Enterprise Zone in Springfield	$0	($888,204)	($888,204)
Loss - Expansion of enterprise zones allowed 3 times in each county	$0	(Unknown greater than $100,000)	(Unknown greater than $100,000)
Loss - Enterprise Zone in Wright Co.	$0	($138,000)	($138,000)
Loss - Enterprise Zone in Pulaski Co.	$0	($138,000)	($138,000)
Loss - Expansion of definition of "distressed community"	(Minimal)	(Minimal)	(Minimal)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**(Unknown) to ($15,000,000)**	**($1,264,204) to (Unknown)**	**($1,264,204) to (Unknown)**

FISCAL IMPACT - State Government	FY 2003 (10 Mo.)	FY 2004	FY 2005

FISCAL IMPACT - Local Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
KANSAS CITY HOUSING AUTHORITY			
Cost to Kansas Housing Authority Commission Member's Salary	**($11,900)**	**($23,800)**	**($23,800)**

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credits may be fiscally impacted by this legislation.

DESCRIPTION

This proposal authorizes removal of property from the Springfield Community Improvement District (CID), or relocation of property from a certain zone of designation in the CID to a different zone. A public hearing must be conducted and approval by the board. The district must be able to meet its financial obligations without the revenues from the proposed portion to be removed.

The proposal also creates a Riverfront Development District Act. In this proposal a port authority may, by resolution, establish a riverfront development district to improve blighted areas within the city or county.

This proposal also gives the power of eminent domain to towns and villages with two hundred or more inhabitants.

Under current law, all seven members of the Kansas City Housing Authority Commission are appointed by the mayor, with one member from each of the six city council districts and the seventh member a tenant of a housing authority project. All commissioners must have resided in Kansas City for at least one year.

Under this substitute, six commissioners will be nominated by a nominating committee and appointed by the mayor, and one commissioner will be elected by the tenants of the housing authority. All must be residents of Kansas City for at least one year. One of the appointed commissioners must be receiving Section 8 housing assistance and one member must own rental property in Kansas City, but not any property containing public housing. Each commissioner will receive a stipend of $200 per month, plus reimbursement for up to $1,000 annually for travel expenses

The proposal creates enterprise zones in Springfield, Pulaski County and Wright County.

The proposal also allows enterprise zones to expand up to three times in each county that they are in, where currently, an entire enterprise zone can only expand three times, no matter how many counties it may be in.

This proposal makes several changes to the Neighborhood Preservation tax credit program within the Department of Economic Development. The proposal expands the definitions of "eligible residence", "new residence", “qualifying residence” and "project" used in the tax credit for rehabilitation and construction of residences in distressed communities and census block. The proposal also increases the eligible tax credit from 15 to 20 percent of costs incurred for a new residence.

DESCRIPTION (continued)

Under current law, of the $16 million in community improvement tax credits allowed, $8 million are to be allocated for "eligible residence" programs and $8 million for "qualifying residence" programs. The proposal states that if, by October 1 of the calendar year, the Director of the Department of Economic

Development has issued all $8 million of the credits allowed for one of these programs and not the entire $8 million allowance for the other program, the director is required to reallocate 70% of any unused tax credits from the program which has not reached its $8 million cap to the one which has.

The reallocated credits will be given to taxpayers who have applied for, but have not received, tax credits in that same year and who are engaged in projects in the area where the tax credit cap has been met for that same year. The maximum reallocated tax credit for any project cannot exceed $500,000.

The proposal also adds that projects involving the new construction, rehabilitation or substantial rehabilitation of more than one residence qualifying for the tax credit for rehabilitation and construction of residences in distressed communities may be submitted with one application.

Also tax certificates may be approved upon completion for each individual residence rather than delaying until substantial completion of the entire project.

The proposal also changes the definition of a "distressed community".

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Department of Agriculture
Department of Insurance
Wright County
Missouri Housing Development Commission
Office of the State Courts Administrator

SOURCES OF INFORMATION (continued)

City of Springfield
City of Kansas City
Village of Bel-Ridge
Village of Bel-Nor
Jefferson County Commission

Mickey Wilson

Mickey Wilson, CPA
Acting Director
May 9, 2002